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ANNUAL REPORT

OF

STRAWBRIDGE & CLOTHIER

PHILADELPHIA, PA.

FOR THE FISCAL YEAR ENDED
JANUARY 31, 1939

STRAWBRIDGE & CLOTHIER

REPORT OF THE PRESIDENT

March 20, 1939.

To the Stockholders of Strawbridge & Clothier:

By order of the Board of Directors, I report the financial position and results of operations of your company.

The fiscal year ended January 31, 1939, was an extremely trying one, especially for those doing business in the Philadelphia district, as, according to the Federal Reserve Reports, this district had the greatest percentage of decrease in sales excepting only the Cleveland district.

The City Sales Tax aggravated the problem, as it drove considerable business into the suburbs. The modified ordinance enacted June 10th, limiting the levy to the City of Philadelphia, sharply increased delivery costs, as out-of-town customers required practically all their purchases to be sent to avoid the tax, which applied on goods carried.

Net profit for the year, after provision for Federal and State income taxes, was $367,971.54. While this figure is less than for the years 1937, 1936 and 1935, it is in excess of the net profit for the years from 1931 to 1934 inclusive.

Your company has fully complied with all covenants of bonds and stocks excepting the payments of dividends on the 7% Preferred Stock, on which $2.00 was paid.

Taxes are an increasingly heavy, uncontrollable burden. The profit is $419,000.00 less than the preceding year, or a decrease of 53%. The total of all taxes was $630,000.00, or a decrease of only 9% as compared with the preceding year.

Total taxes are equivalent to approximately $6.00 per share on the outstanding Preferred Stock issues, and to approximately $180.00 for each person employed by your company.

If the merit rating should be adopted in connection with the Unemployment Compensation Tax, we would be entitled to a considerable reduction in our rate. This tax has been in operation for three years, and our payments for the period aggregated $306,629.00. During the past calendar year (the first in which benefits were paid), 419 of our former employees received compensation: making a liberal estimate of $10.00 per person, the amount paid them for thirteen weeks would only total $54,470.00.

Despite the falling off in business, we are gratified that we have been able to maintain the wage levels of the rank and file of our organization, although salaries of the officers and executives were substantially reduced. The payroll percentage in relation to sales was, however, the highest in our history.

We record, with regret, the passing, since the last annual meeting, of George K. Bartle, one of our Directors for many years.

Mr. J. Clayton Strawbridge was elected to the vacancy on the Board.

It is a pleasure to acknowledge, with grateful appreciation, the intelligent, loyal co-operation of the personnel in the progressive development of operating to the increasing satisfaction of our customers.

HERBERT J. TILY,
President.

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE
PHILADELPHIA
FIDELITY-PHILADELPHIA TRUST BLDG.

March 20, 1939.

STRAWBRIDGE & CLOTHIER,
Philadelphia, Pa.

We have made an examination of the balance sheet of STRAWBRIDGE & CLOTHIER as at January 31, 1939, and of the statement of income and surplus for the year ended at that date. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence, and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

Merchandise inventories are based on actual departmental counts of stock made by employees of the Company at or before January 31, 1939, and priced at retail, less a percentage representing mark-up to reduce sales prices to approximate cost or market value. All inventories as taken were reconciled to January 31, 1939, through standard retail inventory records maintained. Our examination of the inventories was limited to tests of the method of valuation and the mathematical accuracy.

The depreciated value of land and buildings is the sound reproductive value as independently appraised at April 30, 1928, adjusted for subsequent property changes, including additions at cost, less provision for subsequent depreciation. Fixtures and equipment are valued at cost less accumulated provision for depreciation.

Sinking fund provisions of the first mortgage 5% bonds, prior preference 6% cumulative stock and preferred 7% cumulative stock have been complied with.

Dividends on the prior preference 6% cumulative stock have been paid to November 30, 1938, a dividend date. Accumulated dividends on the preferred 7% cumulative stock to December 31, 1938, a dividend date, amounted to $37.50 per share.

In our opinion, based upon our examination, the accompanying balance sheet and related income and surplus account fairly present the position of the Company at January 31, 1939, and the results of its operations for the year ended that date. Further, it is our opinion that the statements have been prepared in accordance with accepted principles of accounting and on a basis consistent with the preceding year.

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INCOME AND SURPLUS ACCOUNT

STRAWBRIDGE & CLOTHIER

Fiscal year ended January 31, 1939

Profit before deducting interest, depreciation and provision for federal and state income taxes		$1,435,061.87
DEDUCT: Interest	$544,407.13	
Depreciation	432,683.20	
		977,090.33
PROFIT BEFORE TAXES ON INCOME		$457,971.54
Taxes on income:		
Provision for current year—estimated:		
Federal income tax	$67,000.00	
State income tax	23,000.00	
		90,000.00
NET PROFIT		$367,971.54
Earned surplus at February 1, 1938		1,932,407.53
		$2,300,379.07
DEDUCT: Cash dividends paid:		
On prior preference stock ($6.00 per share)	$99,700.00	
On preferred stock ($2.00 per share)	177,063.00	
		276,763.00
EARNED SURPLUS—JANUARY 31, 1939		$2,023,616.07
Capital and appreciation surplus at February 1, 1938	$3,824,718.47	
Add discount on prior preference and preferred stock acquired	194,281.50	
	$4,018,999.97	
DEDUCT: Amortization of appreciation of building values	35,995.71	
CAPITAL AND APPRECIATION SURPLUS—JANUARY 31, 1939		3,983,004.26
SURPLUS—JANUARY 31, 1939		$6,006,620.33

BALANCE

STRAWBRIDGE

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ASSETS

Current Assets			
Cash		$1,266,345.88	
Accounts receivable:			
Trade charge accounts	$2,582,842.65		
Trade installment accounts	1,536,840.21		
Creditors' debit balances	82,102.37		
	$4,201,785.23		
Less reserve for doubtful	235,000.00		
		3,966,785.23	
Merchandise inventories		3,400,288.32	
			$8,633,419.43
Other Assets			
Affiliated company—capital stock at cost:			
WFIL Broadcasting Company—50% owned		$126,396.67	
Miscellaneous investments at cost	$80,199.48		
Sundry notes, accounts receivable and deposits	64,830.17		
	$145,029.65		
Less reserve for decline and doubtful	75,000.00		
		70,029.65	
			196,426.32
Property, Fixtures and Equipment			
Operating—land, buildings and equipment (after reserve of $4,482,755.20 for depreciation)		$21,999,856.78	
Non-operating—land and buildings (after reserve of $77,861.18 for depreciation)		474,844.02	
			22,474,700.80
Deferred Charges			
Unamortized bond discount and expense		$163,726.74	
Supply inventories and prepaid expense		156,622.64	
			320,349.38
			$31,624,895.93

SHEET

& CLOTHIER

31, 1939

LIABILITIES

Current Liabilities			
Notes payable to banks		$2,000,000.00	
Accounts payable		931,527.53	
Accrued accounts		327,863.34	
Federal, state and local taxes		283,388.83	
Sinking fund cash requirements for 1939 on first mortgage bonds		328,000.00	
Employees' and sundry deposits		40,998.67	
			$3,911,778.37
Mortgage Payable			
First mortgage on branch store—maturing July 20, 1942			400,000.00
First Mortgage 5% Sinking Fund Bonds—1948			
Outstanding after deducting $22,000.00 in treasury		$9,278,000.00	
Less principal amount represented by 1939 sinking fund cash requirements shown above		328,000.00	
			8,950,000.00
Reserves			
For self-insurance and contingencies			282,850.00
Capital Stock and Surplus			
Capital stock:			
Prior preference—(total authorized 147,600 shares)			
Series A—6% cumulative—par value $100.00 per share, redeemable at $105.00 per share. Authorized 17,600 shares; outstanding 16,340 shares after deducting 1260 shares in treasury	$1,634,000.00		
Preferred—7% cumulative—par value $100.00 per share, redeemable at $105.00 per share. Authorized 91,000 shares; outstanding 86,378 shares after deducting 4622 shares in treasury.	8,637,800.00		
Common—no par value			
Authorized 300,000 shares; issued and outstanding 30,000 shares	1,801,847.23		
		$12,073,647.23	
Surplus (including $588,200.00 applied to repurchase of capital stock in treasury):			
Earned surplus	$2,023,616.07		
Capital and appreciation surplus	3,983,004.26		
		6,006,620.33	
			18,080,267.56
			$31,624,895.93

BOARD OF DIRECTORS

MORRIS L. CLOTHIER, *Chairman*

HERBERT J. TILY
ISAAC H. CLOTHIER, JR.
ROBERT E. STRAWBRIDGE
FREDERIC H. STRAWBRIDGE
FRANCIS R. STRAWBRIDGE
HOWARD COOPER JOHNSON
JOHN JACKSON
J. CLAYTON STRAWBRIDGE

OFFICERS

MORRIS L. CLOTHIER, Chairman of the Board
HERBERT J. TILY, President
ISAAC H. CLOTHIER, JR., Vice-President
ROBERT E. STRAWBRIDGE, Vice-President
HOWARD COOPER JOHNSON, Vice-President and Treasurer
JOHN JACKSON, Secretary
L. G. ANDREWS, Assistant Secretary and Assistant Treasurer